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### EGYPT: Deteriorating Economic Conditions Pose Major Challenges for the Leadership

Egypt's domestic economic situation has not changed significantly for the better since the signing of the Camp David Accords in 1978. However, many of the previously positive external trends have turned negative.

- Remittances have fallen off with the declining demand for Egyptian workers in the Persian Gulf and the recent expulsion of workers by Libya.
- Declining world oil prices have reduced Egyptian oil earnings, its major export.
- Suez Canal revenues have been stagnant, and tourism has not shown any significant increases.

A key change, however, is in the relative positions of Egypt and Israel in terms of the pressing need for US aid.

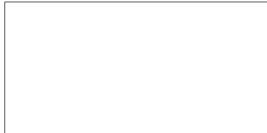
- In 1978, Israel was in serious need of aid, and Egypt benefited from the US desire to provide aid on a parity basis to reward Cairo for participating in the peace process.
- Egypt now has greater demand for funds than Israel, although an increase in US assistance to Egypt obviously would be accompanied by demands for more aid to Israel.

These two countries already account for 60 percent of US aid flows, and additional increases obviously would further squeeze the funds available for other countries.

Even with increased US aid, Egypt faces serious problems ahead. Partly because of the inflows of US aid, Cairo has avoided implementing necessary economic policy changes, particularly elimination of domestic price subsidies.

- Bread prices are the most sensitive subsidy. A January 1977 increase in bread prices led to very serious riots in Cairo.
- Energy is another sensitive item. Gas prices currently are running about 60 cents per gallon, and overall domestic energy prices are only 20 percent of world levels.

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Moreover, Egypt is now counting on increased US aid flows. The recent two-year, \$500 million supplemental facility from the US already has been incorporated in its entirety into next year's budget.

The potential exists for serious deterioration in Egypt's economic position because additional aid will not be enough to paper over the problems. In addition, any leadership miscalculation on the removal or reduction of subsidies would lead to major political unrest.

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